

Message Text

CONFIDENTIAL

PAGE 01 LONDON 08680 01 OF 03 111610Z

51

ACTION EB-11

INFO OCT-01 EUR-25 ISO-00 AEC-11 AID-20 CEA-02 CIAE-00

CIEP-02 COME-00 DODE-00 FEAE-00 FPC-01 H-03 INR-10

INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07 RSC-01 SAM-01

SCI-06 SP-03 SS-20 STR-08 TRSE-00 AECE-00 SAI-01

PA-04 USIA-15 PRS-01 DRC-01 /173 W

----- 087363

P R 111600Z JUL 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC PRIORITY 1993

INFO USMISSION EC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L SECTION 01 OF 03 LONDON 08680

E.O. 11652: XGDS-1

TAGS: ENRG, UK

SUBJECT: AMBASSADOR'S MEETING WITH ENERGY SECRETARY
VARLEY ON BRITISH CONTINENTAL SHELF OIL AND
GAS POLICY

REF: (A) LONDON 8461, (B) LONDON 8462, (C) LONDON 8663,
(D) STATE 149386

BEGIN SUMMARY

I CALLED ON SECRETARY OF STATE FOR ENERGY,
ERIC VARLEY, JULY 11, AT LATTER'S REQUEST TO BE BRIEFED
ON ANNOUNCEMENT VARLEY WILL MAKE IN HOUSE OF COMMONS
THIS AFTERNOON ON NORTH SEA OIL AND GAS POLICY. VARLEY
DESCRIBED ADDITIONAL TAX MEASURES AND POWERS GOVERNMENT
WILL ASSUME, ESTABLISHMENT OF BRITISH NATIONAL OIL
CORPORATION AND GOVERNMENT'S INTENTION TO ACQUIRE
MAJORITY PARTICIPATION IN NORTH SEA COMPANIES. HE
EMPHASIZED NON-DISCRIMINATORY NATURE OF PROPOSALS, AND
EXPLAINED THAT TIMING OF ANNOUNCEMENT DICTATED BY
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LONDON 08680 01 OF 03 111610Z

DOMESTIC POLITICAL CONSIDERATIONS.

END SUMMARY.

1. VARLEY BEGAN BY OUTLINING THE STATEMENT TO THE HOUSE. HE SAID THERE WOULD BE A NEW TAX REGIME FOR OIL AND GAS COMPANIES IN THE NORTH SEA. THE BASIC POINT, HE SAID, IS "RING FENCING" THE NORTH SEA TO MAKE OIL COMPANIES FULLY SUBJECT TO BRITISH TAX. IN PARTICULAR, ARTIFICIAL LOSSES MADE BY OIL COMPANIES ELSEWHERE IN THE WORLD MAY NOT BE OFFSET AGAINST NORTH SEA OPERATION. (AS NOTED REF C, SHELL AND BP ARE COMPANIES CHIEFLY CONCERNED.) THE DETAILS HE SAID ARE COMPLICATED BUT SOME GUIDE TO THE GOVERNMENT'S THINKING WILL BE FOUND IN THE WHITE PAPER TO BE ISSUED THIS AFTERNOON. HE SAID THAT THE COMPANIES HAD CLEARLY BEEN EXPECTING A TIGHTENING UP OF THE TAX REGULATIONS IN THE NORTH SEA AND POINTED OUT THAT SOME OF THE PROPOSALS THAT THE GOVERNMENT WOULD MAKE HAD BEEN FORESHADOWED BY FORMER CONSERVATIVE CHANCELLOR OF THE EXCHEQUER BARBER IN A STATEMENT BEFORE THE ELECTION.

2. I SAID I UNDERSTOOD THAT THE NEW REGULATIONS APPLIED TO NORTH SEA OPERATIONS WOULD BE NON-DISCRIMINATORY. VARLEY AGREED AND SAID THAT NO DISTINCTION WOULD BE MADE BETWEEN COMPANIES OF DIFFERENT NATIONALITIES. INDEED, HE SAID, THE NATIONALIZED INDUSTRIES SUCH AS THE COAL BOARD AND THE GAS CORPORATION, WHICH NOW FIND THEMSELVES IN PARTNERSHIP WITH PRIVATE COMPANIES IN THE NORTH SEA, WOULD BE SUBJECT TO TAX IN THE SAME WAY AS PRIVATE COMPANIES.

3. VARLEY WENT ON TO EXPLAIN THAT THE GOVERNMENT'S INTENTION WITH REGARD TO FUTURE LICENSEES IN THE NORTH SEA IS TO TAKE A "MAJORITY PARTICIPATION" BY WHICH HE SAID HE MEANT AT LEAST 51 PERCENT. WITH REGARD TO EXISTING LICENSEES, THE GOVERNMENT WOULD NEGOTIATE PARTICIPATION. HE POINTED OUT THAT EVEN AS LATE AS 1980 NORTH SEA PRODUCTION WOULD STILL BE ENTIRELY ACCOUNTED FOR BY EXISTING LICENSEES. HE EMPHASIZED THAT THERE IS NO SUGGESTION IN THE GOVERNMENT'S PROPOSALS EITHER OF OUTRIGHT NATIONALIZATION

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 LONDON 08680 01 OF 03 111610Z

OR OF DISCRIMINATION BETWEEN COMPANIES. HE CHARACTERIZED THE GOVERNMENT'S OBJECTIVES AS "NEGOTIATED CARRIED INTEREST" ON THE NORWEGIAN MODEL. HE AGAIN SAID THAT HE HAD HAD SOME PRELIMINARY DISCUSSIONS WITH COMPANIES, AND THAT HE DID NOT BELIEVE THE GOVERNMENT'S PROPOSALS WOULD COME AS A GREAT SURPRISE TO ANY OF THEM.

4. VARLEY DESCRIBED THE ESTABLISHMENT OF THE BRITISH

NATIONAL OIL CORPORATION (BNOC). HE SAID THAT VARIOUS MEANS OF ESTABLISHING GOVERNMENT PARTICIPATION HAD BEEN CONSIDERED AND GRADUAL BUILDUP OF A NEW GOVERNMENT CORPORATION HAD BEEN DECIDED UPON. HE NOTED THAT SOME "WILD SUGGESTIONS" HAD BEEN MADE IN THE PAST, BUT THAT THE GOVERNMENT DID NOT INTEND TO ACQUIRE EXISTING ASSETS OF PRIVATE COMPANIES. THE ROLE OF THE BNOC WOULD BE TO COOPERATE WITH PRIVATE COMPANIES,

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 LONDON 08680 02 OF 03 111624Z

51

ACTION EB-11

INFO OCT-01 EUR-25 ISO-00 AEC-11 AID-20 CEA-02 CIAE-00

CIEP-02 COME-00 DODE-00 FEAE-00 FPC-01 H-03 INR-10

INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07 RSC-01 SAM-01

SCI-06 SP-03 SS-20 STR-08 TRSE-00 AECE-00 SAI-01

PA-04 USIA-15 PRS-01 DRC-01 /173 W

----- 087534

P R 111610Z JUL 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC PRIORITY 1994

INFO USMISSION EC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L SECTION 02 OF 03 LONDON 08680

PARTICULARLY BP OF WHICH THE GOVERNMENT NOW OWNS ROUGHLY 49 PERCENT. HE NOTED THAT A REVIEW OF REFINERY POLICY WAS NOW UNDERWAY BUT REPEATED THAT BNOC'S INVOLVEMENT, IF ANY, WOULD COME ONLY WITH THE CONSTRUCTION OF NEW FACILITIES.

5. VARLEY SAID THE GOVERNMENT WOULD ALSO ASK FOR POWERS TO CONTROL THE RATE OF DEPLETION. HE EXPECTED

NORTH SEA PRODUCTION TO MEET BRITISH REQUIREMENTS BY 1980 AND SPECULATED THAT THEREAFTER PRODUCTION CAPABILITY MIGHT BE IN EXCESS OF UK NEEDS. HE AGREED THAT THIS WAS DIFFICULT TO BE PRECISE ABOUT, GIVEN THE FACT THAT SOME EXPORT OF NORTH SEA CRUDE WOULD BE REQUIRED IF ONLY TO FINANCE IMPORTS OF THE HEAVIER CRUDES REQUIRED BY BRITISH INDUSTRY.

6. VARLEY SAID THE GOVERNMENT WOULD ALSO TAKE POWERS TO CONTROL PIPELINES IN ORDER TO ENSURE RATIONAL USE
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LONDON 08680 02 OF 03 111624Z

OF EXISTING AND PROPOSED FACILITIES.

7. VARLEY EMPHASIZED HIS INTENTION TO BE FAIR TO THE COMPANIES. HE SAID HE EXPECTED TO BE IN SOME DIFFICULTIES, PARTICULARLY WITH SOME OF HIS LABOR PARTY COLLEAGUES WHO WILL PRESS FOR MORE GOVERNMENT CONTROL AND URGE NATIONALIZATION. HE EXPECTED THE NEXT DAY OR TWO TO BE DIFFICULT ONES CHARACTERIZED BY SOME FAIRLY HIGH FLOWN RHETORIC ON BOTH SIDES. HE NOTED THAT THE DEPARTMENT OF ENERGY WILL SHORTLY BEGIN DETAILED DISCUSSIONS WITH THE COMPANIES BUT IN CONCLUSION HE THOUGHT THEY WOULD RECOGNIZE THAT HIS PROPOSALS WERE THE MOST EQUITABLE WAY TO PROVIDE A BIGGER GOVERNMENT TAKE FROM THE NORTH SEA AND BIGGER SHARE OF THE PROFITS FROM THE NORTH SEA FOR BRITAIN.

8. I COMMENTED ALONG THE LINES OF PARA 5, REF D, THAT THE TIMING OF THE BRITISH ANNOUNCEMENT WAS UNFORTUNATE AND COULD WEAKEN THE OIL COMPANIES' POSITION IN THEIR NEGOTIATION WITH DEVELOPING COUNTRY PRODUCERS.

9. VARLEY REPLIED THAT HE HAD CONSIDERED THIS POINT. HOWEVER, THE GOVERNMENT WAS COMMITTED TO MAKING A STATEMENT BEFORE THE PARLIAMENTARY RECESS WHICH IS NOW EXPECTED WITHIN THE NEXT TWO WEEKS. HE SAID HE BELIEVED IT ESSENTIAL TO PROVIDE THE HOUSE WITH AN OPPORTUNITY TO DEBATE HIS PROPOSALS BEFORE THE RECESS. AGAIN, FROM A DOMESTIC POINT OF VIEW, HE FELT THE GOVERNMENT WOULD BE SUBJECT TO HEAVY CRITICISM IF THE COMMITMENT TO MAKE A STATEMENT HAD NOT BEEN HONORED. I COMMENTED THAT I EXPECTED THE GOVERNMENT'S PROCEDURE, WHEN IT BEGAN TO DISCUSS SPECIFICS WITH THE COMPANIES, WOULD SHOW SOME FLEXIBILITY. VARLEY AGREED BUT POINTED OUT THAT THE IMPENDING ELECTION MADE THE WHOLE ISSUE OF NORTH SEA OIL AND GAS HIGHLY POLITICAL AND THAT ELECTION RHETORIC WOULD NOT NECESSARILY BE CONSTRUCTIVE. AS THIS RHETORIC DISAPPEARED AFTER AN ELECTION, A USEFUL DIALOGUE

WITH THE COMPANIES WOULD BE MORE POSSIBLE.

10. I NOTED THAT IN A CAPITALIST SOCIETY IT WAS
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 LONDON 08680 02 OF 03 111624Z

ESSENTIAL TO LEAVE A "BROOMFUL" OF RETURN FOR INVESTORS.
VARLEY AGREED, AND SAID THE WHITE PAPER WOULD TAKE NOTE
OF THIS POINT.

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 LONDON 08680 03 OF 03 111622Z

51
ACTION EB-11

INFO OCT-01 EUR-25 ISO-00 AEC-11 AID-20 CEA-02 CIAE-00

CIEP-02 COME-00 DODE-00 FEAE-00 FPC-01 H-03 INR-10

INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07 RSC-01 SAM-01

SCI-06 SP-03 SS-20 STR-08 TRSE-00 AECE-00 SAI-01

PA-04 USIA-15 PRS-01 DRC-01 /173 W
----- 087540

P R 111610Z JUL 74
FM AMEMBASSY LONDON
TO SECSTATE WASHDC PRIORITY 1995
INFO USMISSION EC BRUSSELS
USMISSION OECD PARIS

C O N F I D E N T I A L SECTION 03 OF 03 LONDON 08680

11. THE PERMANENT SECRETARY, DEPARTMENT OF ENERGY,
(RAMPTON), WHO WAS THE ONLY SUBSTANTIVE BRITISH
OFFICIAL PRESENT, INTERJECTED THAT THE GOVERNMENT HAD

ALSO "SENT MESSAGES" TO THE CHAIRMEN OF MAJOR U.S. OIL CORPORATIONS REGARDING THE GOVERNMENT'S PLANS FOR NORTH SEA. IN THIS CONNECTION, I SUGGESTED THAT THE BRITISH CONSUL GENERAL IN HOUSTON BE FULLY BRIEFED.

12. IN RESPONSE TO OUR QUESTION, VARLEY SAID THAT CONSULTATION WITH THE COMPANIES WOULD BE ON AN INDIVIDUAL BASIS GIVEN THE DIFFERENT SITUATIONS OF EACH COMPANY.

13. I EMPHASIZED OUR HOPE THAT AT AN APPROPRIATE TIME THE GOVERNMENT WOULD EMPHASIZE ITS VIEW THAT THE WESTERN WORLD MUST WORK TOGETHER IN ORDER TO MAINTAIN THE MOST CONSTRUCTIVE INTERNATIONAL
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LONDON 08680 03 OF 03 111622Z

ATTITUDES TOWARDS OIL PRODUCTION. VARLEY AGREED AND SAID HE PARTICULARLY WISHED TO MAINTAIN THE CONSTRUCTIVE BRITISH ATTITUDE BOTH WITHIN AND TOWARD THE ECG. HE POINTED OUT THAT EVEN BEFORE THE ELECTION LABOR HAD BEEN ENTHUSIASTIC ABOUT SECRETARY KISSINGER'S PROPOSALS FOR ENERGY COORDINATION. IN CONCLUSION, VARLEY SAID HE THOUGHT THE PROSPECTS FOR BRITAIN IN THE NORTH SEA WERE "EXCITING." BRITAIN MIGHT SOON FIND ITSELF SELF-SUFFICIENT IN ENERGY, BUT IN NO SENSE WISHED TO CRIPPLE OR LIMIT THE ACCESS OF OTHERS TO SUPPLIES OF CRUDE.

ANNENBERG.

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ENERGY, CONTINENTAL SHELF, PETROLEUM, OFFSHORE DRILLING, NATURAL GAS, FOREIGN POLICY POSITION
Control Number: n/a
Copy: SINGLE
Draft Date: 11 JUL 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974LONDON08680
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: X1
Errors: N/A
Film Number: D740185-0493
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740758/aaaabxpt.tel
Line Count: 310
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: (A) LONDON 8461, (B) LONDON 8462, (C,) LONDON 8663
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 20 JUL 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <20-Jul-2001 by kellerpr>; APPROVED <20 JUN 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: AMBASSADOR'S MEETING WITH ENERGY SECRETARY VARLEY ON BRITISH CONTINENTAL SHELF OIL AND
TAGS: ENRG, UK
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005